

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Fraser, Michigan</u>	County Macomb
Audit Date June 30, 2004	Opinion Date September 10, 2004	Date Accountant Report Submitted To State: October 22, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 10 South Main Street, Suite 200	City Mt. Clemens	State MI	ZIP 48043
Accountant Signature <i>Plante & Moran, PLLC</i>			

City of Fraser, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Fraser, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Fraser, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fraser, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fraser's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fraser, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules of the General Fund and the Drug Forfeiture Fund, the pension system schedule of funding progress, and the pension system schedule of employer contributions identified in the table of contents are not acquired parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and
Members of City Council
City of Fraser, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fraser's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 10, 2004

City of Fraser, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Fraser, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities are new and provide information about the activities of the City of Fraser on a government-wide basis. They are presented on a full accrual basis and designed to present a longer-term view of the City's finances.

Fund financial statements, which are slightly changed from prior years, follow the above-mentioned statements. They are presented on a modified accrual basis and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Fund financial statements report the City's operation in more detail than the government-wide financial statements.

The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for benefit of those outside of government.

The City of Fraser as a Whole

The City's combined net assets decreased by \$1.7 million, from \$23.7 million at June 30, 2003 to \$22 million at June 30, 2004. A review of the governmental activities, separate from the business-type activities, shows a decrease of approximately \$2.7 million in net assets, or 15.3 percent, during fiscal 2004. This decrease was primarily the result of depreciation, a noncash expense, totaling \$2.9 million. Due to the diligence in the area of expenditure control, disciplined budgeting practices, and continued growth in property values, revenues within the City exceeded cash expenditures recorded in 2004 by \$280,000. The business-type activities experienced a \$999,000 increase in net assets. This was primarily due to capitalizing \$170,000 of water and sewer lines contributed by developers, \$1,009,000 of water and sewer improvements transferred from government funds, controlled expenditures, and increased water and sewer rates charged to customers. In a condensed format, the table below shows the comparison of assets (in thousands of dollars) as of June 30, 2004 to the prior year:

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets	\$ 6,225	\$ 7,166	\$ 1,122	\$ 1,091	\$ 7,347	\$ 8,257
Noncurrent assets	<u>21,468</u>	<u>23,207</u>	<u>9,556</u>	<u>8,754</u>	<u>31,024</u>	<u>31,961</u>
Total assets	27,693	30,373	10,678	9,845	38,371	40,218
Liabilities						
Current liabilities	2,265	2,019	682	721	2,947	2,740
Long-term liabilities	<u>10,704</u>	<u>10,959</u>	<u>2,707</u>	<u>2,834</u>	<u>13,411</u>	<u>13,793</u>
Total liabilities	<u>12,969</u>	<u>12,978</u>	<u>3,389</u>	<u>3,555</u>	<u>16,358</u>	<u>16,533</u>
Net Assets						
Invested in capital assets -						
Net of related debt	12,495	13,079	6,697	5,774	19,192	18,853
Restricted	2,027	2,291	-	-	2,027	2,291
Unrestricted (deficit)	<u>202</u>	<u>2,025</u>	<u>592</u>	<u>516</u>	<u>794</u>	<u>2,541</u>
Total net assets	<u>\$ 14,724</u>	<u>\$ 17,395</u>	<u>\$ 7,289</u>	<u>\$ 6,290</u>	<u>\$ 22,013</u>	<u>\$ 23,685</u>

Unrestricted net assets of the governmental activities, which is the part of net assets that is available to finance day-to-day operations and future growth, was \$3.3 million at June 30, 2004. This represents an increase of \$1.3 million or approximately 39 percent.

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in thousands of dollars) as of June 30, 2004:

TABLE 2

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 3,064	\$ 4,487	\$ 7,551
Operating grants and contributions	1,014	-	1,014
Capital grants and contributions	-	170	170
General revenue:			
Property taxes	9,679	-	9,679
State-shared revenue	1,524	-	1,524
Unrestricted investment earnings	240	6	246
Transfers and other revenue	(744)	889	145
Total revenue	14,777	5,552	20,329
Program Expenses			
General government	1,922	-	1,922
Public safety	7,475	-	7,475
Public works	5,944	-	5,944
Recreation	1,305	-	1,305
Community and economic development	385	-	385
Interest on long-term debt	419	-	419
Water and sewer	-	4,169	4,169
Senior housing	-	384	384
Total program expenses	17,450	4,553	22,003
Change in Net Assets	\$ (2,673)	\$ 999	\$ (1,674)

Governmental Activities

The City's total governmental revenues increased by approximately \$500,000 over 2003. This is primarily attributed to property tax revenues generated from community growth, increase in court fines and costs, increase in investment income, and grant revenues; other revenues increased as a result of fee increases. The increases were offset somewhat by decreases in delinquent tax collections; State-shared revenues and other revenues were offset because of a slowdown in the State and national economies.

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

Cash-related expenses remained relatively consistent with the last fiscal year. The City was able to maintain the level of expenditures by monitoring the budget very closely, not filling vacancies, previous modifications in health insurance, a refuse hauling contract, and other cost reduction programs. These cost-cutting measures helped offset general inflationary increases such as wage increases and general incidental costs.

During the year, the City continued to meet the actuarial contribution to the defined benefit pension system and set aside an additional \$57,000 to fund retiree health care benefits.

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund and Senior Citizen's Housing Complex Fund. The City provides its residents water, which is purchased from the City of Detroit Water System, and sewage treatment through a contract with the Macomb County Public Works offices that contract with the City of Detroit Water and Sewage System. The rates for both water and sewer billed to residents rose modestly in July 2003 to offset increases for both water purchased and sewer treatment costs, to finance contractual increases and to make improvements and repairs to the system. The Administrative Consent Order (ACO) issued by the Michigan Department of Environmental Quality (MDEQ) requiring the City to establish a program to correct sanitary sewer overflow progressed. The required items to meet the ACO schedule were accomplished with the proceeds of the \$1.9 million in capital improvement bonds issued in 2002 and revenue generated from the Water and Sewer Fund. The water and sewer department is now on track to solving the sewage overflow problems and meeting the requirements of the ACO. The recent collapse of the 15 Mile interceptor in Sterling Heights, Michigan may cause a delay in securing approval to construct a relief line should it not be repaired in a timely manner and cause the City to develop an alternate plan.

The City's Funds

The analysis of the City's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as State of Michigan Act 51 major and local street revenue sharing, accounting for drug forfeiture revenue and expenditures, capital projects, and voted debt retirement funds.

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

The General Fund pays for most of the City's governmental services, the most significant being the public safety department, which incurred expenditures of approximately \$6.4 million in 2004. The general operating millage levied by the City supports not only public safety but other major operating costs such as funding general government administration, recreation and community development, and others. The general operating millage does not support other costs such as water and sewer, Special Assessment Debt retirement, or General Obligation Bond issues supported by millage or fees. It should be noted that retiree health care is becoming an increasingly larger appropriation from the general operating budget since it was not pre-funded in past years and will become an increased burden to the General Fund in future years. Current year expenditures for retiree health care approximated \$900,000 during 2004.

General Fund Budgetary Highlights

Over the course of the year, the City administration and City Council monitor and amend the budget to take into account unanticipated events that occur during the year. The most significant of these events during fiscal 2004 were the reduction to State-shared revenues. These decreases in revenue were addressed by placing restrictions on department expenditures and invoking general policies to reduce expenditures.

Capital Assets and Debt Administration

At the end of fiscal 2004, the City has \$32 million invested, before depreciation, in a wide range of capital assets, including land, building, public safety equipment, computer equipment, and water and sewer lines. The City is reporting infrastructure assets, which include roads, bridges, sidewalks, storm drains, and other assets in which the City has invested since its inception. The value of the infrastructure assets, net of depreciation, contained in this report is \$8 million at June 30, 2004.

Debt of \$10.8 million related to the construction of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets. Debt related to the acquisition and construction of the senior citizen housing complex totaling \$2.9 million is recorded as a liability in the business-type activities in the statement of net assets.

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets

The City has reduced its property tax millage rate for the 2003-2004 fiscal year to lessen the burden of property taxes on residents and business owners during this downturn in the economy. This was accomplished by reducing department expenditure appropriations in some cases below the previous year, eliminating some personnel and hours for part-time help, fee rate increases, and appropriating additional funds from the General Fund. During the 2004-2005 fiscal year, administration will continue to monitor revenues and expenditures and attempt to expend less than authorized by the budget. It is unlikely that State-shared revenues will increase and it is likely that it will be further reduced in 2005-2006. The City is experiencing additional residential, commercial, and industrial development; however, most will not be complete until 2005 to realize additional property taxes.

Labor contracts are settled through June 30, 2005. Average wage increases are expected to be 3.25 percent during that period. Although we know that the cost of health insurance will increase, it should have some stabilization with the recent changes made to the plans. All additional pension costs were funded by the unions in the last contracts; further, the contribution rates required by the City were increased as a result of the most recent actuarial valuation. The administration will monitor expenses for overtime and purchases and only expend where needed.

The Water and Sewer Fund will be subject to additional increases in cost for water and sewer treatment as forecasted by the City of Detroit.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any question about this report or need additional information, we invite you to contact the administration offices at City Hall.

City of Fraser, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			Component
	Governmental	Business-type		Units
	Activities	Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 4,848,925	\$ 465,124	\$ 5,314,049	\$ 20,395
Receivables:				
Taxes	321,457	-	321,457	-
Customers	-	657,143	657,143	-
Special assessments	587,170	-	587,170	-
Due from other governmental units	467,437	-	467,437	-
Prepaid costs and other assets	-	36,823	36,823	-
Restricted assets	22,343	-	22,343	-
Net pension asset (Note 9)	474,024	-	474,024	-
Capital assets - Nondepreciable - Net (Note 4)	5,000,644	837,043	5,837,687	-
Capital assets - Depreciable (Note 4)	15,971,347	8,682,308	24,653,655	-
Total assets	27,693,347	10,678,441	38,371,788	20,395
Liabilities				
Accounts payable	617,656	431,502	1,049,158	-
Accrued and other liabilities	269,048	93,322	362,370	-
Deferred revenue	345,002	-	345,002	-
Noncurrent liabilities (Note 6):				
Due within one year	1,033,950	157,348	1,191,298	-
Due in more than one year	10,703,647	2,707,179	13,410,826	-
Total liabilities	12,969,303	3,389,351	16,358,654	-
Net Assets				
Invested in capital assets - Net of related debt	12,494,674	6,696,881	19,191,555	-
Restricted:				
Retention pond	22,343	-	22,343	-
Local and major streets	498,832	-	498,832	-
Drug forfeiture	676,791	-	676,791	-
Debt service	179,929	-	179,929	-
Capital projects	175,461	-	175,461	-
Net pension asset	474,024	-	474,024	-
Unrestricted	201,990	592,209	794,199	20,395
Total net assets	\$ 14,724,044	\$ 7,289,090	\$ 22,013,134	\$ 20,395

City of Fraser, Michigan

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,921,766	\$ 1,892,216	\$ 108,416	\$ -
Public safety	7,475,150	700,060	80,837	-
Public works	5,943,933	8,071	810,141	-
Recreation	1,304,523	142,470	14,375	-
Community and economic development	384,600	320,882	-	-
Interest on long-term debt	418,870	-	-	-
Total governmental activities	17,448,842	3,063,699	1,013,769	-
Business-type activities:				
Sewage disposal and water supply	4,169,333	4,037,966	-	170,211
Senior housing	383,821	448,935	-	-
Total business-type activities	4,553,154	4,486,901	-	170,211
Total primary government	<u>\$ 22,001,996</u>	<u>\$ 7,550,600</u>	<u>\$ 1,013,769</u>	<u>\$ 170,211</u>
Component units:				
Economic Development Corporation	\$ -	\$ -	\$ -	\$ -
Downtown Development Authority	225	-	-	-
Total component units	<u>\$ 225</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Franchise fees				
Loss on sale of capital asset				
Transfers				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ 78,866	\$ -	\$ 78,866	\$ -
(6,694,253)	-	(6,694,253)	-
(5,125,721)	-	(5,125,721)	-
(1,147,678)	-	(1,147,678)	-
(63,718)	-	(63,718)	-
(418,870)	-	(418,870)	-
(13,371,374)	-	(13,371,374)	-
-	38,844	38,844	-
-	65,114	65,114	-
-	103,958	103,958	-
(13,371,374)	103,958	(13,267,416)	-
-	-	-	-
-	-	-	(225)
-	-	-	(225)
9,679,014	-	9,679,014	-
1,524,173	-	1,524,173	-
240,442	6,192	246,634	286
149,321	-	149,321	-
(4,558)	-	(4,558)	-
(888,505)	888,505	-	-
10,699,887	894,697	11,594,584	286
(2,671,487)	998,655	(1,672,832)	61
17,395,531	6,290,435	23,685,966	20,334
\$ 14,724,044	\$ 7,289,090	\$ 22,013,134	\$ 20,395

City of Fraser, Michigan

	General	Drug Forfeiture	Special Assessment - Debt Service	Capital Improvements
Assets				
Cash and investments	\$ 2,247,696	\$ 677,845	\$ 145,514	\$ 140,759
Receivables:				
Taxes	321,457	-	-	-
Special assessments	41,141	-	546,029	-
Due from other funds	16,000	-	-	-
Due from other governmental units	329,796	-	-	-
Restricted assets	22,343	-	-	-
Total assets	<u><u>\$ 2,978,433</u></u>	<u><u>\$ 677,845</u></u>	<u><u>\$ 691,543</u></u>	<u><u>\$ 140,759</u></u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 323,104	\$ -	\$ -	\$ 113,226
Due to other funds	-	-	-	-
Accrued and other liabilities	121,737	1,054	-	-
Deferred revenue	386,143	-	546,029	-
Total liabilities	830,984	1,054	546,029	113,226
Fund Balances				
Reserved for retention pond	22,343	-	-	-
Unreserved:				
Special Revenue Funds	-	676,791	-	-
Debt Service Funds	-	-	145,514	-
Capital Projects Funds	-	-	-	27,533
General Fund (Note 1)	2,125,106	-	-	-
Total fund balances	<u><u>2,147,449</u></u>	<u><u>676,791</u></u>	<u><u>145,514</u></u>	<u><u>27,533</u></u>
Total liabilities and fund balances	<u><u>\$ 2,978,433</u></u>	<u><u>\$ 677,845</u></u>	<u><u>\$ 691,543</u></u>	<u><u>\$ 140,759</u></u>

**Governmental Funds
Balance Sheet
June 30, 2004**

Other Governmental Funds	Total Governmental Funds
\$ 1,220,188	\$ 4,432,002
-	321,457
-	587,170
-	16,000
137,641	467,437
-	22,343
<u>\$ 1,357,829</u>	<u>\$ 5,846,409</u>

\$ 144,831	\$ 581,161
16,000	16,000
6,068	128,859
-	932,172
166,899	1,658,192
-	22,343
498,832	1,175,623
34,415	179,929
657,683	685,216
-	2,125,106
<u>1,190,930</u>	<u>4,188,217</u>
<u>\$ 1,357,829</u>	<u>\$ 5,846,409</u>

City of Fraser, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets Year Ended June 30, 2004

Fund Balance - Total Governmental Funds \$ 4,188,217

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds 19,678,179

Net pension assets in governmental activities are not reported in the funds 474,024

Special assessment receivables are expected to pay for current year's expenditures 587,170

Bonds payable are not due and payable in the current period and are not reported in the funds (10,735,000)

Compensated absences are included as a liability in governmental activities (984,220)

Accrued interest is included as a liability in governmental activities (137,459)

Internal Service Funds are included as part of governmental activities 1,653,133

Net Assets of Governmental Activities \$ 14,724,044

City of Fraser, Michigan

	General	Drug Forfeiture	Special Assessment - Debt Service	Capital Improvements
Revenue				
Property taxes	\$ 9,333,018	\$ -	\$ -	\$ -
Federal sources	213,425	-	-	-
State sources	1,525,455	-	-	-
Interest on investments	149,791	13,093	41,737	16,254
Special assessments	-	-	74,533	-
District Court and Violations Bureau	1,315,448	-	-	-
Licenses, permits, and registrations	260,696	-	-	-
Other revenue	938,396	365,951	-	-
Total revenue	13,736,229	379,044	116,270	16,254
Expenditures				
Current:				
General government	2,248,943	-	-	-
Public safety	7,068,608	299,914	-	-
Public works	1,219,860	-	-	1,178,895
City parks and recreation	804,598	-	-	-
Other functions	1,196,686	-	-	-
Capital outlay	-	103,430	-	-
Debt service	-	-	138,740	-
Total expenditures	12,538,695	403,344	138,740	1,178,895
Excess of Revenue Over (Under) Expenditures	1,197,534	(24,300)	(22,470)	(1,162,641)
Other Financing Sources (Uses)				
Transfers in	10,000	-	-	-
Transfers out	(769,945)	-	-	-
Payment to escrow agent for bond refunding	-	-	-	-
Bond proceeds	-	-	-	-
Total other financing sources (uses)	(759,945)	-	-	-
Net Change in Fund Balances	437,589	(24,300)	(22,470)	(1,162,641)
Fund Balances - Beginning of year	1,709,860	701,091	167,984	1,190,174
Fund Balances - End of year	<u>\$ 2,147,449</u>	<u>\$ 676,791</u>	<u>\$ 145,514</u>	<u>\$ 27,533</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2004

Other Governmental Funds	Total Governmental Funds
\$ 353,253	\$ 9,686,271
-	213,425
810,141	2,335,596
13,927	234,802
22,278	96,811
-	1,315,448
-	260,696
<u>7,437</u>	<u>1,311,784</u>
1,207,036	15,454,833
-	2,248,943
-	7,368,522
1,190,017	3,588,772
-	804,598
-	1,196,686
133,506	236,936
<u>1,152,664</u>	<u>1,291,404</u>
<u>2,476,187</u>	<u>16,735,861</u>
(1,269,151)	(1,281,028)
1,053,283	1,063,283
(252,123)	(1,022,068)
(1,475,000)	(1,475,000)
<u>2,065,011</u>	<u>2,065,011</u>
<u>1,391,171</u>	<u>631,226</u>
122,020	(649,802)
<u>1,068,910</u>	<u>4,838,019</u>
<u>\$ 1,190,930</u>	<u>\$ 4,188,217</u>

City of Fraser, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (649,802)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation (1,858,164)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (77,879)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 2,175,000

Proceeds from issuance of bond is a revenue in governmental funds, but is not in the statement of activities (where it increases long-term debt) (2,070,000)

Accrued interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds (12,209)

Increase in accumulated employee compensated absences, as well as estimated general liability claims, is recorded when earned in the statement of activities (66,180)

Internal Service Funds are also included as governmental activities (112,253)

Change in Net Assets of Governmental Activities \$ (2,671,487)

City of Fraser, Michigan

Proprietary Funds Statement of Net Assets June 30, 2004

	Business-type Activities			Governmental
	Major Funds			Activity
	Water and Sewer	Senior Citizen Housing Complex	Total Enterprise Funds	Internal Service Fund
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 359,323	\$ 105,801	\$ 465,124	\$ 416,923
Receivables - Customers	657,143	-	657,143	-
Total current assets	1,016,466	105,801	1,122,267	416,923
Noncurrent assets:				
Other assets	-	36,823	36,823	-
Capital assets (Note 4)	5,792,537	3,726,814	9,519,351	1,293,812
Total noncurrent assets	5,792,537	3,763,637	9,556,174	1,293,812
Total assets	6,809,003	3,869,438	10,678,441	1,710,735
Liabilities				
Current liabilities:				
Accounts payable	425,158	6,344	431,502	36,495
Accrued and other liabilities	66,549	59,121	125,670	13,117
Current portion of long-term debt (Note 6)	-	125,000	125,000	-
Total current liabilities	491,707	190,465	682,172	49,612
Noncurrent liabilities:				
Provision for compensated absences (Note 6)	9,709	-	9,709	7,990
Long-term debt - Net of current portion (Note 6)	-	2,697,470	2,697,470	-
Total noncurrent liabilities	9,709	2,697,470	2,707,179	7,990
Total liabilities	501,416	2,887,935	3,389,351	57,602
Net Assets				
Investment in capital assets - Net of related debt	5,792,537	904,344	6,696,881	1,293,812
Unrestricted	515,050	77,159	592,209	359,321
Total net assets	<u>\$ 6,307,587</u>	<u>\$ 981,503</u>	<u>\$ 7,289,090</u>	<u>\$ 1,653,133</u>

City of Fraser, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Business-type Activities		Governmental	
	Major Funds		Activity	
	Water and Sewer	Senior Citizen Housing Complex	Total Enterprise Funds	Internal Service Fund
Operating Revenue				
Charges for services	\$ 3,861,120	\$ -	\$ 3,861,120	\$ -
Interest and penalties	46,062	-	46,062	-
Rents	-	448,935	448,935	581,999
Other	18,422	-	18,422	823
Total operating revenue	3,925,604	448,935	4,374,539	582,822
Operating Expenses				
Salaries	561,414	33,593	595,007	85,034
Fringe benefits	238,160	-	238,160	55,194
Material and supplies	84,417	20,972	105,389	10,026
Gas and oil	-	-	-	90,899
Repairs and maintenance	599,078	62,439	661,517	178,947
Cost of water	670,976	-	670,976	-
Cost of sewage disposal	1,216,415	-	1,216,415	-
Utilities	17,997	32,419	50,416	-
Postage	14,077	-	14,077	-
Professional services	43,749	-	43,749	-
Insurance	-	-	-	72,655
Equipment rental	287,000	-	287,000	-
Curbside recycling	88,968	-	88,968	-
Depreciation	325,957	80,201	406,158	250,610
Miscellaneous	21,125	4,638	25,763	32,865
Total operating expenses	4,169,333	234,262	4,403,595	776,230
Operating Income (Loss)	(243,729)	214,673	(29,056)	(193,408)
Nonoperating Revenue (Expenses)				
Tap-in fees	112,362	-	112,362	-
Interest income	3,784	2,407	6,191	5,640
Interest expense	-	(149,558)	(149,558)	-
Loss on disposal of capital asset	-	-	-	(4,558)
Total nonoperating expenses	116,146	(147,151)	(31,005)	1,082

City of Fraser, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Continued) Year Ended June 30, 2004

	Business-type Activities			Governmental
	Major Funds		Total	Activity
	Water and Sewer	Senior Citizen Housing Complex	Enterprise Funds	Internal Service Fund
Income (Loss) - Before contributions	\$ (127,583)	\$ 67,522	\$ (60,061)	\$ (192,326)
Capital Contributions from Governmental Funds	1,009,793	-	1,009,793	-
Capital Contributions from Developers	170,211	-	170,211	-
Income (Loss) - Before operating transfers	1,052,421	67,522	1,119,943	(192,326)
Operating Transfers In	-	-	-	80,073
Operating Transfers Out	(111,288)	(10,000)	(121,288)	-
Change in Net Assets	941,133	57,522	998,655	(112,253)
Net Assets - Beginning of year	5,366,454	923,981	6,290,435	1,765,386
Net Assets - End of year	<u>\$ 6,307,587</u>	<u>\$ 981,503</u>	<u>\$ 7,289,090</u>	<u>\$ 1,653,133</u>

City of Fraser, Michigan

	Enterprise - Water and Sewer	Senior Citizen Housing Complex
Cash Flows from Operating Activities		
Receipts from customers	\$ 3,891,766	\$ 449,025
Payments to suppliers	(3,317,087)	(115,698)
Payments to employees	(574,497)	(33,646)
Other receipts	18,422	-
Net cash provided by operating activities	18,604	299,681
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(30,730)	-
Tap-in fee collections	112,362	-
Operating transfers from (to) other funds	(111,288)	(10,000)
Proceeds from sale of fixed asset	-	-
Principal and interest paid on capital debt	-	(268,885)
Net cash used in capital and related financing activities	(29,656)	(278,885)
Cash Flows from Investing Activities - Interest received on investments	3,784	2,407
Net Increase (Decrease) in Cash and Cash Equivalents	(7,268)	23,203
Cash and Cash Equivalents - Beginning of year	366,591	82,598
Cash and Cash Equivalents - End of year	<u><u>\$ 359,323</u></u>	<u><u>\$ 105,801</u></u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating income (loss)	\$ (243,729)	\$ 214,673
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation and amortization	325,957	80,201
Changes in assets and liabilities:		
Receivables	(15,416)	-
Other assets	-	2,525
Accounts payable	(67,402)	2,245
Accrued and other liabilities	19,194	37
Net cash provided by operating activities	<u><u>\$ 18,604</u></u>	<u><u>\$ 299,681</u></u>
Noncash Transactions - Contribution of capital assets from governmental funds	\$ 1,009,793	\$ -

**Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2004**

Total Enterprise Funds	Internal Service Fund
\$ 4,340,791	\$ 581,999
(3,432,785)	(412,031)
(608,143)	(91,906)
<u>18,422</u>	<u>823</u>
318,285	78,885
(30,730)	(401,628)
112,362	-
(121,288)	80,073
-	25,287
<u>(268,885)</u>	<u>-</u>
(308,541)	(296,268)
<u>6,191</u>	<u>5,640</u>
15,935	(211,743)
<u>449,189</u>	<u>628,666</u>
<u>\$ 465,124</u>	<u>\$ 416,923</u>
\$ (29,056)	\$ (193,408)
406,158	250,610
(15,416)	-
2,525	-
(65,157)	17,646
<u>19,231</u>	<u>4,037</u>
<u>\$ 318,285</u>	<u>\$ 78,885</u>
\$ 1,009,793	\$ -

City of Fraser, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2004

	Trust Funds - Pension and Other Retirement Benefits	Agency Funds
Assets		
Cash and cash equivalents	\$ 770,379	\$ 632,436
Investments:		
U.S. government securities	4,035,772	-
Stocks	9,359,888	-
Corporate bonds	113,357	-
Mortgage obligations	3,256,587	-
Annuities	640,826	-
Mutual funds	2,174,433	-
Total assets	20,351,242	<u>\$ 632,436</u>
Liabilities - Accrued and other liabilities	<u>138,275</u>	<u>\$ 632,436</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 20,212,967</u>	

City of Fraser, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

	Trust Funds - Pension and Other Retirement Benefits
Additions	
Investment income:	
Interest and dividends	\$ 642,848
Net increase in fair value of investments	1,289,125
Less investment expenses	<u>(105,768)</u>
Net investment income	1,826,205
Contributions:	
Employer	2,042,202
Employee	<u>202,411</u>
Total contributions	<u>2,244,613</u>
Total additions	4,070,818
Deductions	
Benefit payments	2,664,173
Administrative expenses	<u>103,331</u>
Total deductions	<u>2,767,504</u>
Net Increase	1,303,314
Net Assets - Beginning of year	<u>18,909,653</u>
Net Assets - End of year	<u><u>\$ 20,212,967</u></u>

City of Fraser, Michigan

Component Units Statement of Net Assets June 30, 2004

	Economic Development Corporation	Downtown Development Authority	Totals
Assets - Cash and investments	<u>\$ 16,027</u>	<u>\$ 4,368</u>	<u>\$ 20,395</u>
Net Assets - Unrestricted	<u>\$ 16,027</u>	<u>\$ 4,368</u>	<u>\$ 20,395</u>

City of Fraser, Michigan

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants/ Contributions
Economic Development Corporation -			
Public works and streets	\$ -	\$ -	\$ -
Downtown Development Authority -			
Public works	<u>225</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 225</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues - Interest

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets		
Economic Development Corporation	Downtown Development Authority	Total
\$ -	\$ -	\$ -
-	(225)	(225)
-	(225)	(225)
224	62	286
224	(163)	61
15,803	4,531	20,334
\$ 16,027	\$ 4,368	\$ 20,395

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Fraser, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

The City of Fraser, Michigan Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as part of the Senior Housing Fund because its primary purpose is to finance and construct the City's senior citizen housing.

The City's employee retirement system has also been blended into the City's financial statements. The system is governed by a nine-member pension board that includes the plan trustee chosen by the City Council. The system is reported as if it is part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

Discretely Presented Component Units - The following component units are reported within the component units column in the combined financial statements. They are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 10 individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council.
- b. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of nine individuals, is selected by the City Council.

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Drug Forfeiture Fund (a Special Revenue Fund) accounts for the revenues and associated expenditures generated through drug seizure and related drug enforcement activities.
- The Special Assessment Fund (a Debt Service Fund) accounts for special assessment district revenues collected to make principal and interest payments on the 1996 Special Assessment Bonds.
- The Capital Improvements Fund (a Capital Projects Fund) accounts for bond proceeds and all other resources used for the purpose of construction activity for the water and sewer rehabilitation program referenced in Note 8.

The City reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the activities of the water distribution and sewage collection system.

Note 1 - Summary of Significant Accounting Policies (Continued)

- The Senior Citizen Housing Complex Fund accounts for activity of the senior citizen housing center.

Additionally, the City reports the following fund types:

- The Internal Service Fund accounts for vehicle and equipment rental provided to other departments of the City on a cost reimbursement basis.
- The Pension Trust Fund and Retiree Health Care Fund account for the activities of the retirement systems, which accumulate resources for pension benefit payments to qualified employees, and for medical benefits provided to employees during retirement, respectively.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Major Street Fund, Local Street Fund, General Obligation Fund, Water and Sewer Fund, Internal Service Fund, and Special Assessment Fund (a Capital Projects Fund) is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Properties are assessed as of December 31 and the related property taxes become a lien and are billed on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

Prepaid Costs and Other Assets - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - An outside developer of property within the City constructed a retention pond and remitted funds to the City to cover estimated future maintenance costs. This amount has been classified as a restricted asset.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	20-30 years
Water and sewer distribution systems	25-30 years
Buildings and building improvements	20-50 years
Vehicles	5-20 years
Machinery and equipment	5-20 years
Furniture and fixtures	5-15 years

Compensated Absences - It is the City's policy to permit certain employees to accumulate earned but unused sick, vacation, and personal pay benefits. All vacation, sick, and personal pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Note 1 - Summary of Significant Accounting Policies (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The following is a summary of the unreserved fund balances of the governmental funds with management's designations:

	Funds				
	General	Drug Forfeiture	Special Assessment	Capital Improvement	Nonmajor
Designated for property tax appeals	\$ 165,000	\$ -	\$ -	\$ -	\$ -
Undesignated	<u>1,960,106</u>	<u>676,791</u>	<u>145,514</u>	<u>27,533</u>	<u>1,190,930</u>
Total unreserved	<u>\$ 2,125,106</u>	<u>\$ 676,791</u>	<u>\$ 145,514</u>	<u>\$ 27,533</u>	<u>\$ 1,190,930</u>

Property Tax Revenue - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2003 ad valorem tax is levied and collectible on July 1, 2003 and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the City totaled \$518 million, on which ad valorem taxes levied consisted of 16.73 mills for operating purposes, 0.60 mills for ambulance services, and 0.67 mills for debt service. This resulted in \$8.67 million for operating, \$311,000 million for ambulance services, and approximately \$347,000 for debt service. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2008.

Note 2 - Stewardship, Compliance, and Accountability

The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. During the current year, the budget was amended in a legally permissible manner.

The budgetary comparison schedule (non-GAAP budgetary basis) - General Fund and the budgetary comparison schedule - Drug Forfeiture Fund included in required supplemental information are presented on the same basis of accounting used in preparing the adopted budgets. The budgets have been adopted on a fund basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations to the General Fund and Drug Forfeiture Fund budgets as adopted by the City Council is available at the clerk's office for inspection.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provisions of the Act, the City has adopted this accounting treatment. For the year ended June 30, 2004, building department revenue and expenditures totaled approximately \$209,000 and \$337,000, respectively, which resulted in an excess of expenditures over revenue of approximately \$128,000 for this period. Since January 1, 2000, each year's expenditures have exceeded revenues within the City's building department.

Fund Deficits - The City has accumulated a fund deficit in the Special Assessments Fund, a nonmajor Capital Projects Fund.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds and investment pools composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Fund and the Retiree Health Care Fund are also authorized to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt to equity of certain small businesses, certain State and local government obligations, and certain other specified investment vehicles.

The City of Fraser, Michigan's deposits and investment policies are in accordance with statutory authority.

Note 3 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and investments	\$ 4,848,925	\$ 465,124	\$ 20,983,678	\$ 26,297,727	\$ 20,395
Restricted assets	22,343	-	-	22,343	-
Total	<u>\$ 4,871,268</u>	<u>\$ 465,124</u>	<u>\$ 20,983,678</u>	<u>\$ 26,320,070</u>	<u>\$ 20,395</u>

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 6,192,921	\$ 20,395
Investments in securities, mutual funds, and similar vehicles	20,125,674	-
Petty cash or cash on hand	1,475	-
Total	<u>\$ 26,320,070</u>	<u>\$ 20,395</u>

Deposits

The above deposits of the primary government were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$6,419,000. Of that amount, approximately \$806,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Deposits and Investments (Continued)

Investments

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2004. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent in the City's name

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the City's name

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
Corporate bonds	\$ 113,357	\$ -	\$ -	\$ 113,357
U.S. government securities	4,035,772	-	-	4,035,772
Common and preferred stock	9,359,888	-	-	9,359,888
Mortgage obligations	3,256,587	-	-	3,256,587
Subtotal	<u>\$ 16,765,604</u>	<u>\$ -</u>	<u>\$ -</u>	16,765,604
Investments not subject to categorization:				
Bank investment pool funds				544,811
Annuity contracts				640,826
Mutual funds				<u>2,174,433</u>
Total primary government				<u>\$ 20,125,674</u>

Note 3 - Deposits and Investments (Continued)

The mutual funds, bank investment pools, and annuity contracts are not evidenced by securities that exist in physical or book entry form. The bank investment pools and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

Included in the City's investments at June 30, 2004 are the following:

- Approximately \$45,000 of securities issued by the Government National Mortgage Association (GNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$3,212,000 of collateralized mortgage obligations. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Component Units

The cash and cash equivalents of the City's component units consist of bank deposits of \$20,395. The deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$20,395. The federal depository insurance coverage pertains to all deposits of the City of Fraser; hence, the specific coverage pertaining to the component units' deposits, if any, is not determinable.

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated:				
Land and land improvements	\$ 4,950,179	\$ -	\$ -	\$ 4,950,179
Construction in progress	74,856	50,465	(74,856)	50,465
Subtotal	5,025,035	50,465	(74,856)	5,000,644
Capital assets being depreciated:				
Roads and sidewalks	68,675,601	664,036	-	69,339,637
County road improvements	339,834	134,146	-	473,980
Buildings and improvements	5,723,392	10,900	-	5,734,292
Vehicles	3,543,409	432,776	(186,154)	3,790,031
Machinery and equipment	1,126,682	40,440	(45,890)	1,121,232
Furniture and fixtures	274,291	-	-	274,291
Subtotal	79,683,209	1,282,298	(232,044)	80,733,463
Accumulated depreciation:				
Roads and sidewalks	58,484,525	2,410,897	-	60,895,422
Buildings and improvements	772,075	83,256	-	855,331
Vehicles	2,219,574	289,448	(156,309)	2,352,713
Machinery and equipment	466,316	147,488	(45,890)	567,914
Furniture and fixtures	70,151	20,585	-	90,736
Subtotal	62,012,641	2,951,674	(202,199)	64,762,116
Net capital assets being depreciated	17,670,568	(1,669,376)	(29,845)	15,971,347
Net capital assets	\$ 22,695,603	\$ (1,618,911)	\$ (104,701)	\$ 20,971,991

Note 4 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 837,043	\$ -	\$ -	\$ 837,043
Construction in progress	<u>280,916</u>	<u>-</u>	<u>(280,916)</u>	<u>-</u>
Subtotal	1,117,959	-	(280,916)	837,043
Capital assets being depreciated:				
Water and sewer distribution systems	10,532,609	1,491,650	-	12,024,259
Buildings and building improvements	<u>3,793,847</u>	<u>-</u>	<u>-</u>	<u>3,793,847</u>
Subtotal	14,326,456	1,491,650	-	15,818,106
Accumulated depreciation:				
Water and sewer distribution systems	5,917,808	325,957	-	6,243,765
Buildings and building improvements	<u>811,832</u>	<u>80,201</u>	<u>-</u>	<u>892,033</u>
Subtotal	<u>6,729,640</u>	<u>406,158</u>	<u>-</u>	<u>7,135,798</u>
Net capital assets being depreciated	<u>7,596,816</u>	<u>1,085,492</u>	<u>-</u>	<u>8,682,308</u>
Net capital assets	<u>\$ 8,714,775</u>	<u>\$ 1,085,492</u>	<u>\$ (280,916)</u>	<u>\$ 9,519,351</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 232,308
Public safety	84,118
Public works	2,304,174
Recreation and culture	80,464
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>250,610</u>
Total governmental activities	<u>\$ 2,951,674</u>
Business-type activities:	
Water and sewer	\$ 325,957
Senior Housing Center	<u>80,201</u>
Total business-type activities	<u>\$ 406,158</u>

Note 5 - Interfund Receivables, Payables, and Transfers

Interfund Receivables/Payables

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from other funds - General Fund	Nonmajor governmental funds	\$ 16,000

Interfund Transfers

The composition of interfund transfers out is as follows:

Fund Transferred From	Fund Transferred to	Amount
Governmental Activities		
General Fund	Nonmajor governmental funds	\$ 769,945
Nonmajor governmental funds	Nonmajor governmental funds	<u>252,123</u>
Total governmental operating transfers out		1,022,068
Business-type Activities		
Water and Sewer Fund	Nonmajor governmental funds	111,288
Senior Citizen Housing Complex	General Fund	<u>10,000</u>
Total business-type operating transfers out		<u>121,288</u>
Total operating transfers out reported in governmental and proprietary funds		<u><u>\$ 1,143,356</u></u>

During 2004, the City's General Fund made significant transfers to the Debt Service Fund to service current year debt payments and local street Special Revenue Funds for the improvement of local streets.

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General obligation bonds:						
1989 Michigan Transportation Bonds						
Amount of issue - \$1,100,000						
Maturing through 2004	5.00%	\$125,000	\$ 125,000	\$ (125,000)	\$ -	\$ -
1996 Unlimited Tax General Obligation Bonds						
Amount of issue - \$2,275,000						
Maturing through 2004	5.20%	\$150,000	1,775,000	(1,625,000)	150,000	150,000
1998 Unlimited Tax General Obligation						
City Hall Bonds						
Amount of issue - \$5,750,000	4.20% -	\$125,000 -				
Maturing through 2020	4.25%	\$550,000	5,475,000	(125,000)	5,350,000	125,000
2002 Limited Tax General Obligation						
Capital Improvement Bonds						
Amount of issue - \$1,900,000	4.00% -	\$25,000 -				
Maturing through 2023	5.00%	\$175,000	1,900,000	(25,000)	1,875,000	25,000
2003 General Obligation Limited Tax						
Refunding Bonds						
Amount of issue - \$1,560,000	2.00% -	\$15,000 -				
Maturing through 2011	3.13%	\$245,000	-	1,560,000	1,560,000	15,000
2003 General Obligation Capital						
Improvement Bonds						
Amount of issue - \$510,000	3.10% -	\$35,000 -				
Maturing through 2013	5.00%	\$75,000	-	475,000	475,000	35,000
Installment purchase agreements -						
1993 Installment Purchase Agreement						
Amount of issue - \$1,865,000	5.10% -	\$150,000 -				
Maturing through 2008	5.40%	\$175,000	785,000	(140,000)	645,000	150,000
Special assessment bonds -						
1996 Special Assessment Bonds						
Amount of issue - \$1,205,000	5.20% -	\$75,000 -				
Maturing through 2012	5.45%	\$100,000	780,000	(100,000)	680,000	100,000
Total bond obligations			10,840,000	(105,000)	10,735,000	600,000
Other long-term obligations - Compensated						
absences			933,628	68,969	1,002,597	433,950
Total governmental activities			11,773,628	(36,031)	11,737,597	1,033,950
Business-type Activities						
General obligation bonds:						
1999 Building Authority Bonds						
Amount of issue - \$3,235,000	3.85% -	\$125,000 -				
Maturing through 2019	4.80%	\$270,000	3,120,000	(130,000)	2,990,000	125,000
Unamortized discount and deferred						
charges on defeasance	-	-	(179,018)	11,488	(167,530)	-
Total bond obligations			2,940,982	(118,512)	2,822,470	125,000
Other long-term obligations - Compensated						
absences			34,813	7,244	42,057	32,348
Total business-type activities			2,975,795	(111,268)	2,864,527	157,348
Total			\$ 14,749,423	\$ (147,299)	\$ 14,602,124	\$ 1,191,298

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 600,000	\$ 454,788	\$ 1,054,788	\$ 125,000	\$ 131,484	\$ 256,484
2006	765,000	409,137	1,174,137	170,000	125,720	295,720
2007	745,000	380,283	1,125,283	165,000	119,021	284,021
2008	765,000	351,264	1,116,264	165,000	112,256	277,256
2009	630,000	319,857	949,857	165,000	105,326	270,326
2010-2014	3,255,000	1,177,659	4,432,659	920,000	413,214	1,333,214
2015-2019	2,800,000	618,606	3,418,606	1,280,000	155,859	1,435,859
2020-2022	1,175,000	91,237	1,266,237	-	-	-
Total	<u>\$ 10,735,000</u>	<u>\$ 3,802,831</u>	<u>\$ 14,537,831</u>	<u>\$ 2,990,000</u>	<u>\$ 1,162,880</u>	<u>\$ 4,152,880</u>

Debt Defeasance

In October 2003, the City issued \$1,560,000 in refunding bonds with interest rates ranging from 2 percent to 3.125 percent; the proceeds were used to advance refund \$1,475,000 of outstanding 1996 City Share Limited Tax General Obligation bonds with interest rates ranging from 5.2 percent to 5.45 percent. The net proceeds of \$1,551,000 (including premiums of \$4,075 and after payment of \$51,000 in underwriting fees and other issuance costs and accrued interest of \$38,000) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds mentioned above. As a result, bonds are considered to be defeased and the liability for the bonds has been removed from the City. The advance refunding reduced total debt service payments over the next eight years by approximately \$111,000.

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League risk pool for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 8 - Contingencies

During the year ended June 30, 2002, the City received an administrative consent order from the State of Michigan Department of Environmental Quality for its alleged violation of the Water Resources Protection of the Natural Resources and Environmental Protection Act, 1994, P.A. 451. As a result of the consent order, the Department of Environmental Quality fined the City \$210,000. The City was required to pay \$20,000 annually from April 2002 through 2004. As of June 30, 2004, all of these payments were made. The City was also required to pay the remaining \$150,000 by conducting three environmental projects to improve the existing storm and sanitary sewer system at various dates through December 31, 2006. The City completed one of these environmental projects for a total cost of approximately \$220,000 and the remaining projects are pending.

In the year ended June 30, 2002, the City issued \$1,900,000 of general obligation, limited tax bonds, of which \$1,780,000 was spent to improve the City's sewer system in the years ended June 30, 2003 and 2004. As of June 30, 2004, the City has completed its first phase of sewer repairs and there are no ongoing projects. The City estimates it may incur total costs of approximately \$6 million to \$17 million to undertake the construction projects necessary to be in compliance with the Water Resources Protection of the Natural Resources and Environmental Protection Act, 1994, P.A. 451.

Note 9 - Defined Benefit Pension Plan

Plan Description - The City maintains a defined benefit retirement plan consisting of the following employee groups: Public Safety, Department of Public Works, management employees, office and clerical workers, dispatchers, and supervisors. Each employee group is covered under a consolidated plan. The consolidated plan is a single-employer defined benefit pension plan administered by the City of Fraser's Pension Board. The consolidated plan does not issue a separate financial report.

Public Safety - The plan covers all full-time public safety employees who are members of POAM or POLC. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, public safety membership consisted of 30 retirees and beneficiaries currently receiving benefits, three terminated employees entitled to benefits but not yet receiving them, and 51 current active employees.

Note 9 - Defined Benefit Pension Plan (Continued)

Department of Public Works - The plan covers all full-time Department of Public Works employees of the City. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, Public Works membership consisted of three retirees currently receiving benefits, three terminated employees entitled to benefits but not yet receiving them, and 19 current active employees.

Management Employees - The plan covers all full-time management employees of the City. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, management membership consisted of eight retirees and beneficiaries currently receiving benefits, four terminated employees entitled to benefits but not yet receiving them, and six current active employees.

Office and Clerical Workers - The plan covers all full-time office and clerical employees who are members of the collective bargaining unit. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, office and clerical membership consisted of 10 retirees and beneficiaries currently receiving benefits, one terminated employee entitled to benefits but not yet receiving them, and 18 current active employees.

Dispatchers - The plan covers all full-time dispatcher employees of the City. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, dispatcher membership consisted of six current active employees.

Supervisors - The plan covers full-time supervisory employees of the City who are not considered management or are not covered by any other collectively bargained plan. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, supervisors' membership consisted of four retirees and beneficiaries currently receiving benefits, one terminated employee entitled to benefits but not yet receiving them, and 12 current active employees.

Funding Policy

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Note 9 - Defined Benefit Pension Plan (Continued)

The funding policy of the plan provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

The following employee contributions are required under collectively bargained agreements:

Public Safety	2.55 to 4.57 percent
Department of Public Works	1.29 to 2.99 percent
Office and clerical	3.65 percent
Dispatchers	4.71 percent

Management and supervisory employees are not covered under a collective bargaining agreement. They are required to make a 2 percent or 3 percent contribution, respectively.

Annual Pension Costs

For the year ended June 30, 2004, the City's annual pension cost and net pension obligation are as follows:

	Public Safety	Public Works	Management	Office and Clerical	Dispatchers	Supervisors	Total
Annual required contribution	\$ 694,625	\$ 101,605	\$ 108,404	\$ 71,804	\$ 31,019	\$ 99,033	\$ 1,106,490
Interest on net pension obligation	(27,682)	2,108	(4,343)	(3,783)	(1,282)	(4,009)	(38,991)
Adjustment to annual required contribution	<u>31,643</u>	<u>(2,410)</u>	<u>4,965</u>	<u>4,324</u>	<u>1,466</u>	<u>4,583</u>	<u>44,571</u>
Annual pension cost	698,586	101,303	109,026	72,345	31,203	99,607	1,112,070
Contributions made	<u>(690,378)</u>	<u>(102,495)</u>	<u>(107,468)</u>	<u>(68,003)</u>	<u>(30,618)</u>	<u>(99,730)</u>	<u>(1,098,692)</u>
Change in net pension obligation (asset)	8,208	(1,192)	1,558	4,342	585	(123)	13,378
Net pension obligation (asset) - Beginning of year	<u>(346,027)</u>	<u>26,350</u>	<u>(54,293)</u>	<u>(47,288)</u>	<u>(16,027)</u>	<u>(50,117)</u>	<u>(487,402)</u>
Net pension obligation (asset) - End of year	<u>\$ (337,819)</u>	<u>\$ 25,158</u>	<u>\$ (52,735)</u>	<u>\$ (42,946)</u>	<u>\$ (15,442)</u>	<u>\$ (50,240)</u>	<u>\$ (474,024)</u>

Note 9 - Defined Benefit Pension Plan (Continued)

The annual required contribution was determined as part of an actuarial valuation at June 30, 2003 using the entry actual age cost method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return and (b) projected salary increases of 5 percent per year. Both (a) and (b) include an inflation component of 0 percent. The actuarial valuation of assets was determined using the fair market value of plan assets as of the date of the actuarial valuation. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at June 30, 2004 was 26 years.

Three-year Trend Information of Annual Pension Cost

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Public Safety:			
2002	\$ 601,515	100.4	\$ (349,800)
2003	574,443	99.3	(346,027)
2004	698,586	98.8	(337,819)
Department of Public Works:			
2002	108,268	103.0	26,348
2003	105,925	100.0	26,350
2004	101,303	101.2	25,158
Management employees:			
2002	102,400	104.1	(53,686)
2003	89,266	100.7	(54,293)
2004	109,026	98.6	(52,735)
Office and clerical workers:			
2002	70,493	102.6	(48,820)
2003	75,696	98.0	(47,288)
2004	72,345	94.0	(42,946)
Dispatchers:			
2002	26,216	103.8	(16,463)
2003	29,825	98.5	(16,027)
2004	31,203	98.1	(15,442)

Note 9 - Defined Benefit Pension Plan (Continued)

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Supervisors:			
2002	\$ 77,355	104.9	\$ (49,089)
2003	83,015	101.2	(50,117)
2004	99,607	100.1	(50,240)

Note 10 - Money Purchase Plan

The City provides pension benefits to all of its full-time employees who are not participants in any of the City's defined benefit pension plans through a money purchase plan (a defined contribution plan). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by City Council, the City contributes 7 percent of employees' gross earnings. During the year ended June 30, 2004, all City employees were participants in a City defined benefit pension plan; accordingly, there were no City contributions made during the current year.

Note 11 - Postemployment Benefits

The City provides health care and dental benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 65 retirees are eligible. The City includes pre-Medicare retirees and their spouses in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care and dental benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$859,000.

Required Supplemental Information

City of Fraser, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 1,709,860	\$ 1,709,860	\$ 1,709,860	\$ -
Resources (Inflows)				
Property taxes:				
Property taxes	9,275,240	9,275,240	9,078,210	(197,030)
Payments in lieu of taxes	67,846	67,846	70,386	2,540
Property tax administration fees	146,000	146,000	139,675	(6,325)
Interest, penalties, and other	42,810	42,810	44,747	1,937
Total property taxes	9,531,896	9,531,896	9,333,018	(198,878)
Federal sources	122,550	122,550	213,425	90,875
State sources	1,614,900	1,614,900	1,525,455	(89,445)
District Court and Violations Bureau	1,389,300	1,389,300	1,315,448	(73,852)
Licenses, permits, and registrations	173,500	173,500	260,696	87,196
Interest income	101,000	101,000	149,791	48,791
Other:				
Recreation department	101,000	101,000	99,139	(1,861)
Library revenue	12,800	12,800	10,959	(1,841)
Other	734,250	744,250	828,298	84,048
Transfer from other funds	10,000	10,000	10,000	-
Amounts available for appropriation	13,791,196	13,801,196	13,746,229	(54,967)
Charges to Appropriations (Outflows)				
General government:				
City Council	93,691	93,691	92,176	1,515
City administration	301,627	301,627	292,042	9,585
District Court	605,100	615,100	598,424	16,676
Finance	484,011	484,011	433,034	50,977
Assessor	232,651	232,651	210,733	21,918
Legal	116,000	151,000	149,870	1,130
Buildings and grounds	352,300	360,800	341,223	19,577
Total general government	2,185,380	2,238,880	2,117,502	121,378

City of Fraser, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Charges to Appropriations (Outflows) (Continued)				
Public works	\$ 1,161,364	\$ 1,170,064	\$ 1,140,824	\$ 29,240
Public safety	6,804,612	6,804,612	6,566,039	238,573
Building inspection	352,305	352,305	336,747	15,558
City parks and recreation	689,332	695,557	658,552	37,005
Library	458,209	458,209	436,716	21,493
Planning Committee	51,700	51,700	42,296	9,404
Historical Committee	9,525	9,525	7,540	1,985
Insurance	290,000	290,000	285,588	4,412
Other	226,050	167,975	87,799	80,176
Transfers to other funds	2,071,503	2,071,503	1,629,037	442,466
Total charges to appropriations	14,299,980	14,310,330	13,308,640	1,001,690
Fund Balance - End of year	\$ 1,201,076	\$ 1,200,726	\$ 2,147,449	\$ 946,723

City of Fraser, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Drug Forfeiture Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 701,091	\$ 701,091	\$ 701,091	\$ -
Resources (Inflows)				
Interest income	24,000	24,000	13,093	(10,907)
Other	<u>210,000</u>	<u>210,000</u>	<u>365,951</u>	<u>155,951</u>
Amounts available for appropriation	234,000	234,000	379,044	145,044
Charges to Appropriations (Outflows)				
Other functions:				
Materials and supplies	184,000	184,000	145,488	38,512
Repairs and maintenance	7,500	7,500	5,648	1,852
Professional services	90,000	90,000	148,778	(58,778)
Capital outlay	<u>120,000</u>	<u>120,000</u>	<u>103,430</u>	<u>16,570</u>
Total charges to appropriations	<u>401,500</u>	<u>401,500</u>	<u>403,344</u>	<u>(1,844)</u>
Fund Balance - End of year	<u><u>\$ 533,591</u></u>	<u><u>\$ 533,591</u></u>	<u><u>\$ 676,791</u></u>	<u><u>\$ 143,200</u></u>

City of Fraser, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress (a) June 30, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (Percent)
Public Safety						
June 30:						
1998	\$ 12,334,166	\$ 12,529,335	\$ 195,169	98	\$ 2,724,238	7
1999	13,021,414	13,856,946	835,532	94	2,821,221	30
2000	13,705,926	16,202,639	2,496,713	85	3,298,768	76
2001	13,855,770	16,585,807	2,730,037	84	3,275,235	83
2002	13,638,011	17,616,778	3,978,767	77	3,007,735	132
2003	13,014,477	19,182,822	6,168,345	68	3,416,100	181
Management Employees						
June 30:						
1998	2,098,415	2,666,818	568,403	79	354,106	161
1999	2,205,515	2,803,600	598,085	79	384,290	156
2000	2,298,129	3,115,816	817,687	74	415,597	197
2001	2,347,477	2,994,234	646,757	78	430,349	150
2002	2,333,696	3,158,428	824,732	74	447,772	184
2003	2,283,058	3,530,586	1,247,528	65	389,903	320
Department of Public Works						
June 30:						
1998	1,867,448	2,051,528	184,080	91	745,222	25
1999	1,879,180	2,004,430	125,250	94	817,789	15
2000	2,092,436	2,063,911	(28,525)	101	855,620	-
2001	2,239,812	2,209,450	(30,362)	101	876,102	-
2002	2,330,995	2,294,856	(36,139)	102	878,573	-
2003	2,397,995	2,677,546	279,551	90	899,817	31
Office and Clerical Workers						
June 30:						
1998	1,138,197	1,324,304	186,107	86	462,820	40
1999	1,216,125	1,341,534	125,409	91	496,850	25
2000	1,293,935	1,505,140	211,205	86	537,144	39
2001	1,343,086	1,624,461	281,375	83	556,642	51
2002	1,350,687	1,540,521	189,834	88	563,156	34
2003	1,347,029	1,803,862	456,833	75	626,530	73
Dispatchers						
June 30:						
1998	152,094	255,958	103,864	59	159,122	65
1999	59,330	156,588	97,258	38	165,837	59
2000	98,899	208,995	110,096	47	185,444	59
2001	141,491	251,358	109,867	56	194,066	57
2002	178,229	283,220	104,991	63	226,066	46
2003	219,059	365,078	146,019	60	237,218	62
Supervisors						
June 30:						
1998	883,837	1,015,547	131,710	87	494,642	27
1999	1,389,535	1,732,131	342,596	80	533,303	64
2000	1,561,989	1,791,324	229,335	87	541,425	42
2001	1,723,435	1,970,323	246,888	87	594,126	42
2002	1,807,914	2,495,315	687,401	72	598,408	115
2003	1,838,344	2,796,438	958,094	66	599,548	160

(a) Required by Governmental Accounting Standards Board Statement No. 25

City of Fraser, Michigan

Required Supplemental Information Pension System Schedule of Employer Contributions June 30, 2004

Year Ended	Annual Required Contribution	Percentage Contributed
<u>Public Safety</u>		
Year ended June 30:		
1999	\$ 319,768	160
2000	535,495	129
2001	525,746	98
2002	598,171	101
2003	570,774	100
2004	694,625	99
<u>Management Employees</u>		
Year ended June 30:		
1999	96,884	112
2000	124,679	86
2001	129,104	100
2002	101,923	105
2003	88,703	101
2004	108,404	99
<u>Department of Public Works Employees</u>		
Year ended June 30:		
1999	97,491	136
2000	118,022	103
2001	113,352	101
2002	108,552	103
2003	106,201	100
2004	101,605	101
<u>Office and Clerical Workers</u>		
Year ended June 30:		
1999	61,297	133
2000	72,514	102
2001	76,734	99
2002	70,040	103
2003	75,184	99
2004	71,804	95
<u>Dispatchers</u>		
Year ended June 30:		
1999	25,272	137
2000	30,598	102
2001	32,021	100
2002	26,067	104
2003	29,652	99
2004	31,019	99
<u>Supervisors</u>		
Year ended June 30:		
1999	73,477	123
2000	115,831	103
2001	116,297	100
2002	76,919	106
2003	82,500	102
2004	99,033	101

City of Fraser, Michigan

Required Supplemental Information Pension System Schedule of Employer Contributions (Continued) June 30, 2004

The retirement system supplementary information was determined as part of the actuarial valuations at the dates indicated. Additional information and actuarial assumptions used for all plans as of the latest actuarial valuation reports dated June 30, 2003 are as follows:

Actuarial cost method	Individual entry age
Amortization method	Level of percent closed
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4% to 5%
Payroll growth	5%
Inflation	None

Other Supplemental Information

City of Fraser, Michigan

	Nonmajor Special Revenue Funds	
	Major Streets	Local Streets
Assets		
Cash and investments	\$ 415,369	\$ 24,254
Due from other governmental units	96,085	41,556
Total assets	<u><u>\$ 511,454</u></u>	<u><u>\$ 65,810</u></u>
Liabilities and Fund Balances (Deficit)		
Liabilities		
Accounts payable	\$ 17,904	\$ 54,460
Accrued and other liabilities	1,179	4,889
Due to other funds	-	-
Total liabilities	19,083	59,349
Fund Balances (Deficit) - Reserved	<u>492,371</u>	<u>6,461</u>
Total liabilities and fund balances (deficit)	<u><u>\$ 511,454</u></u>	<u><u>\$ 65,810</u></u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Nonmajor Debt Service Funds		Nonmajor Capital Projects Fund			Total Nonmajor Governmental Funds
General Obligation	Motor Vehicle Highway	City Hall	2003 Senior Activities Center Expansion	Special Assessments	
\$ 34,415	\$ -	\$ 238,610	\$ 505,875	\$ 1,665	\$ 1,220,188
-	-	-	-	-	137,641
<u>\$ 34,415</u>	<u>\$ -</u>	<u>\$ 238,610</u>	<u>\$ 505,875</u>	<u>\$ 1,665</u>	<u>\$ 1,357,829</u>
\$ -	\$ -	\$ 72,236	\$ -	\$ 231	\$ 144,831
-	-	-	-	-	6,068
-	-	-	-	16,000	16,000
-	-	72,236	-	16,231	166,899
34,415	-	166,374	505,875	(14,566)	1,190,930
<u>\$ 34,415</u>	<u>\$ -</u>	<u>\$ 238,610</u>	<u>\$ 505,875</u>	<u>\$ 1,665</u>	<u>\$ 1,357,829</u>

City of Fraser, Michigan

	Nonmajor Special Revenue Funds	
	Major Streets	Local Streets
Revenue		
Property taxes	\$ -	\$ -
State sources	565,620	244,521
Special assessments	-	-
Interest on investments	5,675	546
Other revenue	-	7,437
Total revenue	571,295	252,504
Expenditures		
Current - Public works	541,336	648,681
Capital outlay	-	-
Debt service	-	-
Total expenditures	541,336	648,681
Excess of Expenditures Over (Under) Revenue	29,959	(396,177)
Other Financing Sources (Uses)		
Transfers in	-	340,000
Transfers out	(106,825)	(65,225)
Payment to escrow agent for bond refunding	-	-
Bond proceeds	-	-
Total other financing sources (uses)	(106,825)	274,775
Change in Fund Balances	(76,866)	(121,402)
Fund Balances (Deficit) - Beginning of year	569,237	127,863
Fund Balances (Deficit) - End of year	<u>\$ 492,371</u>	<u>\$ 6,461</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances (Deficit) - Nonmajor Governmental Funds
Year Ended June 30, 2004

Nonmajor Debt Service Funds		Nonmajor Capital Projects Fund			Total Nonmajor Governmental Funds
General Obligation	Motor Vehicle Highway	City Hall	2003 Senior Activities Center Expansion	Special Assessments	
\$ 353,253	\$ -	\$ -	\$ -	\$ -	\$ 353,253
-	-	-	-	-	810,141
-	-	-	-	22,278	22,278
1,400	-	2,852	3,328	126	13,927
-	-	-	-	-	7,437
354,653	-	2,852	3,328	22,404	1,207,036
-	-	-	-	-	1,190,017
-	-	125,448	2,464	5,594	133,506
839,234	313,430	-	-	-	1,152,664
839,234	313,430	125,448	2,464	5,594	2,476,187
(484,581)	(313,430)	(122,596)	864	16,810	(1,269,151)
399,853	313,430	-	-	-	1,053,283
-	-	(80,073)	-	-	(252,123)
(1,475,000)	-	-	-	-	(1,475,000)
1,560,000	-	-	505,011	-	2,065,011
484,853	313,430	(80,073)	505,011	-	1,391,171
272	-	(202,669)	505,875	16,810	122,020
34,143	-	369,043	-	(31,376)	1,068,910
\$ 34,415	\$ -	\$ 166,374	\$ 505,875	\$ (14,566)	\$ 1,190,930

City of Fraser, Michigan

Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds - Special Revenue Fund - Major Streets Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 569,237	\$ 569,237	\$ 569,237	\$ -
Resources (Inflows)				
State sources	563,900	563,900	565,620	1,720
Interest income	2,500	2,500	5,675	3,175
Operating transfers	<u>290,653</u>	<u>290,653</u>	<u>-</u>	<u>(290,653)</u>
Amounts available for appropriation	857,053	857,053	571,295	(285,758)
Charges to Appropriations (Outflows)				
Public works:				
Salaries and fringe benefits	275,628	275,628	187,566	88,062
Materials and supplies	45,000	45,000	32,083	12,917
Repairs and maintenance	30,000	30,000	33,599	(3,599)
Equipment rental	21,000	21,000	21,000	-
Other	24,000	24,000	49,976	(25,976)
Capital outlay	355,000	355,000	217,112	137,888
Operating transfers	<u>106,425</u>	<u>106,425</u>	<u>106,825</u>	<u>(400)</u>
Total charges to appropriations	<u>857,053</u>	<u>857,053</u>	<u>648,161</u>	<u>208,892</u>
Fund Balance - End of year	<u>\$ 569,237</u>	<u>\$ 569,237</u>	<u>\$ 492,371</u>	<u>\$ (76,866)</u>

City of Fraser, Michigan

Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds - Special Revenue Fund - Local Streets Year Ended June 30, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 127,862	\$ 127,862	\$ 127,862	\$ -
Resources (Inflows)				
State sources	242,470	242,470	244,521	2,051
Other	4,500	4,500	7,437	2,937
Interest income	900	900	546	(354)
Operating transfers	<u>540,807</u>	<u>540,807</u>	<u>340,000</u>	<u>(200,807)</u>
Amounts available for appropriation	788,677	788,677	592,504	(196,173)
Charges to Appropriations (Outflows)				
Public works:				
Salaries and fringe benefits	348,252	348,252	233,287	114,965
Materials and supplies	45,000	45,000	57,509	(12,509)
Repairs and maintenance	55,000	55,000	44,195	10,805
Equipment rental	27,000	27,000	27,000	-
Other	2,000	2,000	1,450	550
Capital outlay	245,000	245,000	285,239	(40,239)
Operating transfers	<u>66,425</u>	<u>66,425</u>	<u>65,225</u>	<u>1,200</u>
Total charges to appropriations	<u>788,677</u>	<u>788,677</u>	<u>713,905</u>	<u>74,772</u>
Fund Balance - End of year	<u><u>\$ 127,862</u></u>	<u><u>\$ 127,862</u></u>	<u><u>\$ 6,461</u></u>	<u><u>\$ (121,401)</u></u>

City of Fraser, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2003

	Pension Trust	Retiree Health Care Trust	Pension and Other Employee Benefit Trust Fund Totals	Agency
Assets - Cash and investments	\$ 19,972,422	\$ 378,820	\$ 20,351,242	\$ 632,436
Liabilities - Accrued and other liabilities	<u>67,266</u>	<u>71,009</u>	<u>138,275</u>	<u>632,436</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 19,905,156</u>	<u>\$ 307,811</u>	<u>\$ 20,212,967</u>	<u>\$ -</u>

City of Fraser, Michigan

	Money Purchase Pension	Public Safety	Management Employees
Additions			
Investment income (loss):			
Interest and dividends	\$ 1,706	\$ 385,808	\$ 76,317
Net increase in fair value of investments	3,603	814,921	101,034
Less investment expenses	(274)	(61,862)	(15,577)
Net investment income	5,035	1,138,867	161,774
Contributions:			
City	-	690,378	107,468
Employee	-	123,864	9,495
Total contributions	-	814,242	116,963
Total additions	5,035	1,953,109	278,737
Deductions			
Benefit payments	4,800	1,261,078	246,230
Administrative expenses	236	51,121	27,759
Total deductions	5,036	1,312,199	273,989
Net Increase (Decrease) in Net Assets	(1)	640,910	4,748
Net Assets Held in Trust for Pension Benefits			
Beginning of year	54,200	11,443,228	1,972,747
End of year	<u>\$ 54,199</u>	<u>\$ 12,084,138</u>	<u>\$ 1,977,495</u>

Other Supplemental Information
Combining Statement of Changes in Plan Net Assets
Trust Funds
Year Ended June 30, 2004

Department of Public Works	Office and Clerical Workers	Dispatchers	Supervisors	Total Pension Trust Fund	Retiree Health Care Trust	Trust Fund Totals
\$ 71,281	\$ 40,601	\$ 7,634	\$ 55,448	\$ 638,795	\$ 4,053	\$ 642,848
150,563	85,759	16,126	117,119	1,289,125	-	1,289,125
(11,430)	(6,510)	(1,224)	(8,891)	(105,768)	-	(105,768)
210,414	119,850	22,536	163,676	1,822,152	4,053	1,826,205
102,495	68,003	30,618	99,730	1,098,692	943,510	2,042,202
15,502	26,214	9,128	18,208	202,411	-	202,411
117,997	94,217	39,746	117,938	1,301,103	943,510	2,244,613
328,411	214,067	62,282	281,614	3,123,255	947,563	4,070,818
81,640	88,763	-	91,303	1,773,814	890,359	2,664,173
10,300	5,423	999	7,493	103,331	-	103,331
91,940	94,186	999	98,796	1,877,145	890,359	2,767,504
236,471	119,881	61,283	182,818	1,246,110	57,204	1,303,314
2,146,664	1,195,713	202,814	1,643,680	18,659,046	250,607	18,909,653
\$ 2,383,135	\$ 1,315,594	\$ 264,097	\$ 1,826,498	\$ 19,905,156	\$ 307,811	\$ 20,212,967

City of Fraser, Michigan

	Money Purchase Pension	Public Safety	Management Employees
Assets - Cash and investments	\$ 54,199	\$ 12,084,138	\$ 2,044,761
Liabilities - Due to retiree	-	-	67,266
Net Assets - Held in trust for pension benefits	<u>\$ 54,199</u>	<u>\$ 12,084,138</u>	<u>\$ 1,977,495</u>

Other Supplemental Information
Combining Statement of Net Assets by Retiree Group
Pension Trust Fund
Year Ended June 30, 2004

Department of Public Works	Office and Clerical Workers	Dispatchers	Supervisors	Total Pension Trust Fund
\$ 2,383,135	\$ 1,315,594	\$ 264,097	\$ 1,826,498	\$ 19,972,422
-	-	-	-	67,266
<u>\$ 2,383,135</u>	<u>\$ 1,315,594</u>	<u>\$ 264,097</u>	<u>\$ 1,826,498</u>	<u>\$ 19,905,156</u>

September 10, 2004

The Honorable Mayor
and Members of the City Council
City of Fraser, Michigan
33000 Garfield
Fraser, Michigan 48026

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Fraser, Michigan for the year ended June 30, 2004. As a part of that audit and to assist with the City's continuous improvement efforts, we offer the following comments and recommendations for your review and consideration.

Overview of the City's Financial Condition

The City's efforts to closely monitor expenditures resulted in an increase to fund balance of approximately \$437,000 during the year end June 30, 2004. As a result, fund balance in the General Fund totaled \$2,147,000 at June 30, 2004. Of that amount, \$1,960,000 is unreserved and undesignated. This represents approximately 14 percent of the City's budgeted expenditures for the fiscal year ended June 30, 2005.

Budgeting and Cash Flow Requirements

As recently discussed with council, we recommend the City formulate a three-to-five year operating plan that would include different financial scenarios it may expect to encounter. The City is in the process of carefully analyzing each department to protect services while revenue resources are being constrained. This type of multi-year planning allows a municipality to proactively identify total available revenue compared to the expenditure trends and address short and long term solutions to maintaining a balanced budget. We are available to assist the City as needed as you examine these financial challenges.

Water and Sewer Fund

The Water and Sewer Fund operating results for the year ended June 30, 2004, declined by \$372,000 from the prior year. This primarily results from a decline in operating revenue and an increase in the cost of sewage disposal and system maintenance. The Water and Sewer fund generated approximately \$18,000 of cashflow from operations. In order for the Water and Sewer Fund to finance the significant capital improvements required to maintain and upgrade its infrastructure, it must increase its capital position by improving operating results and increasing the cash flow generated from operations. Otherwise, any significant improvements to infrastructure may require alternative financing sources. We continue to strongly encourage the

The Honorable Mayor
and Members of the City Council
City of Fraser, Michigan

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September 10, 2004

City to continue closely monitoring Water and Sewer operating costs, short and long-term infrastructure needs, and user rates to appropriately address these concerns.

New Financial Statement Reporting Requirement

The Governmental Accounting Standards Board (GASB) recently issued GASB Statement No. 40, "Deposit and Investment Risk Disclosures" which is effective for the City's year ending June 30, 2005. This statement expands the required report disclosures related to the City's deposits and investments.

Highlights of the new disclosures include:

- A description of deposit and investment policies
- Information about investment maturities and related interest rate risks
- Credit ratings of certain investments held by the City
- Information about various concentrations of credit risk

We will work closely with the City to ensure compliance with these new requirements.

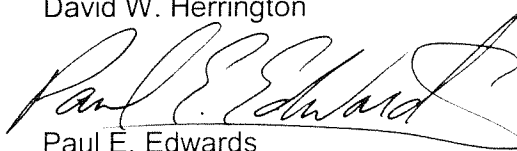
We would like to thank the Council for providing us the opportunity to serve as the auditors for the City. In addition, we sincerely appreciate the preparedness and cooperation extended to us by Mr. Van Damme, Mrs. Jamison, Mrs. Robichaud, and the rest of the staff during this audit. As always, we are pleased to discuss these comments, information presented in the financial statements, or any other matters with you at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



David W. Herrington



Paul E. Edwards